

HOUSING MARKET OUTLOOK

Kingston CMA



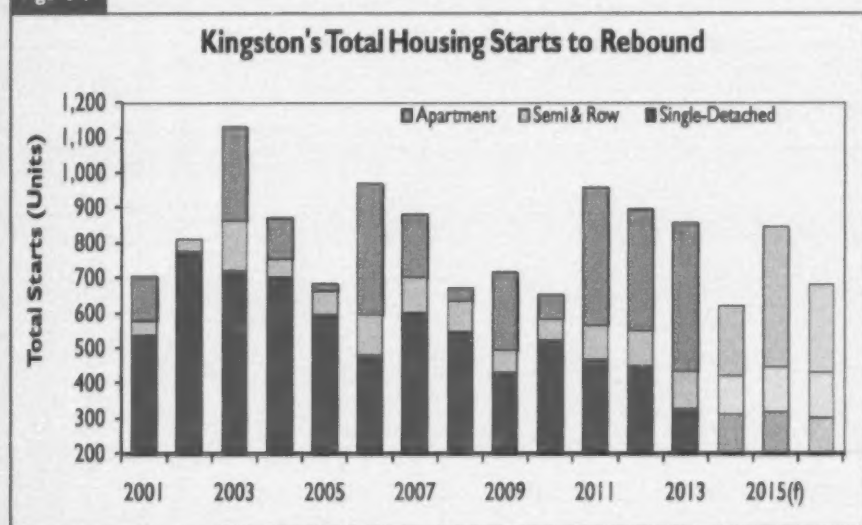
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Kingston's existing home sales to continue the positive momentum of the recent months well into 2015, but will moderate slightly in 2016.
- Kingston's existing home average prices will continue to increase, albeit at a decreasing rate, reflecting balanced market conditions.
- While total housing starts will end this year lower than 2013, next year will post a rebound.

Figure 1



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts included in this document are based on information available as of October 22 2014.

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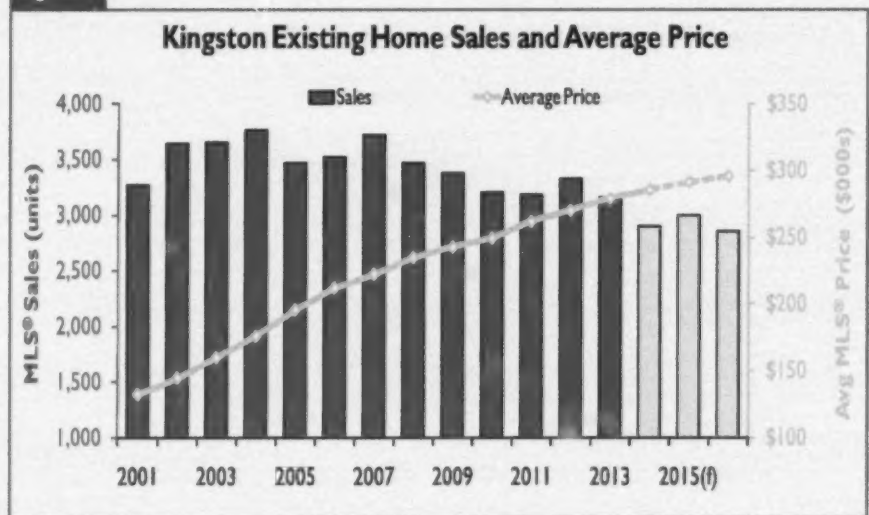
New Home Market: Starts to Rebound in 2015

Kingston's total housing starts this year will come in well below last year's number. Total new housing construction will be lower as a result of fewer apartment and single-detached starts, which will be marginally offset by increases in the semi-detached and row segments. 2015 will see a rebound in starts when larger apartment projects break ground and single-detached construction picks up. For 2016 expect apartment starts to retreat once more as other dwelling types take the lead; this will result in fewer total housing starts.

After three consecutive years of strong apartment starts, the level of apartment building permits for 2014 suggests further weakening in construction activity as the market adjusts to this increased supply. In 2015, conversely, apartment starts will rebound and will continue to play an important role in the new housing market as developers anticipate increased demand in certain sub-markets in the years to come. A higher number of apartments under construction in 2015 will result in some pullback in new construction by 2016.

In recent years Kingston registered fewer single detached starts. This downward trend appears to be reaching a bottom in 2014, with 310 units expected to be built. The reversal of this downward trend will be gaining momentum in 2015 and 2016 with more single detached homes being built to meet demand from move-up buyers. Anticipate that in 2015 the number of single-detached home starts will be 320, and for 2016 the number will fall to 300; this year's forecast remains below the 10 year

Figure 2



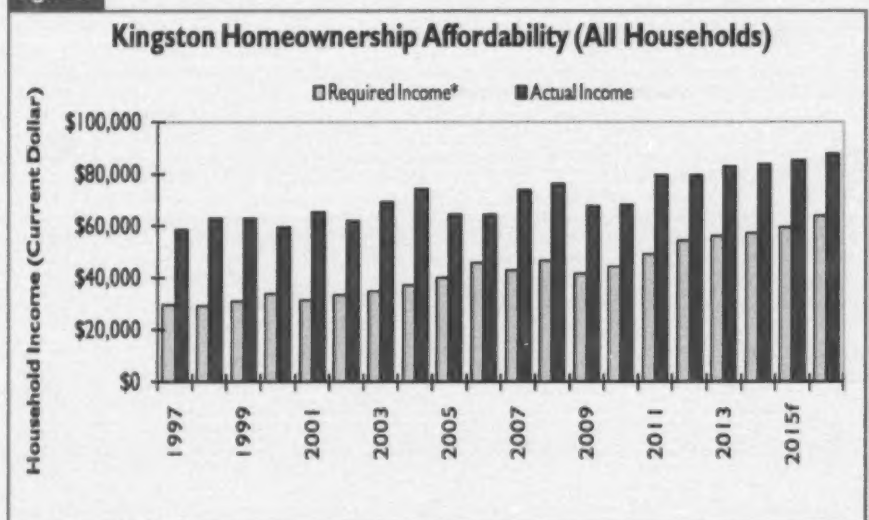
Source: CREA (MLS®); f = CMHC forecast

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average. As a result of recent trends in the market, such as increasing student enrollment and an increasing number of senior households, the demand in the long-run will continue to favor multiple versus single-detached homes.

Row houses have begun to play an increasingly important role for first time buyers as an affordable alternative to apartments in Kingston's new home market, and have also seen increasing demand in the resale market. Expect 2014 to end the year

Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

with 110 new row houses being built, a number well above the ten year average. Moving into 2015 and 2016 anticipate more row starts: 125 and 130 respectively. Higher density housing is the choice for buyers with higher price sensitivity as well as for first time home buyers.

Resale Market: Existing Home Sales to See Modest Rebound in 2015

Existing home sales this year will continue the downward trend started a couple of years ago. Nonetheless pent-up demand accumulated over the recent months will extend the sales growth experienced this summer well into 2015. However, this rise in sales will be short-lived. The declining trend in existing home sales that have lasted since 2012 is expected to continue in 2016.

A healthy employment picture and increasing average wages in Kingston will create positive momentum in housing demand. As well, existing home sales will continue to get a boost from stable monthly mortgage carrying costs led by historically low mortgage rates. An outlook for gradually increasing mortgage rates, slower home price appreciation and growing incomes will help keep mortgage payments steady at least until mid-year 2015.

Market conditions in Kingston will remain balanced. The sales-to-new listings ratio, which measures the relationship between demand and supply, is expected to remain in balance, albeit on the cooler side of the spectrum. As listings are anticipated to catch up to the recent increase in sales this year, the sales-to-new listings ratio will moderate. Other factors such as employment and price growth continue to indicate

a balanced market for the forecast horizon.

Recent demographic and employment changes suggest that there will be stronger home buyer activity in the coming year. The fast pace of job growth over the last year experienced by the 25-44 age cohort helped these potential households recover most of the jobs lost during the recent recession. Expect this trend to continue forward. It is important to note that this age group was impacted the most during the recent recession. This job growth among the younger demographic is a positive signal as it has the potential to increase their ability to buy homes.

Average resale prices will continue to grow in the coming years, albeit at a decreasing rate as the forecast horizon is extended. CMHC forecasts an average resale price increase of 2.4 per cent in 2014, 2.0 per cent in 2015 and 1.5 per cent in 2016. Leading indicators such as increase in employment and wages, low interest rates and market balance, coupled with a lower growth in prices will help maintain housing market activity at a healthy level.

Moderate price growth will keep affordability stable for 2014. As we move into 2015 and beyond, the required income to buy the average home will grow roughly in line with the average actual household income in Kingston.

Rental Market: Increase in Rental Supply in 2015

Developers will scale back rental construction in 2014, as the number of rental units under construction has reached record levels in the recent years. However, anticipate a rebound in rental starts in 2015 as higher rents

and positive employment growth encourage investments in the rental market. For the major developers, higher rents earned on newer units appear to be compensating for the losses due to higher vacancy rates experienced in the market and possibly in older units under management. As of August this year, the number of rental units under construction (521) was well above the ten year average.

As a result of supply growth, the vacancy rate in Kingston will rise by year end compared to the previous year. We expect the vacancy rate to loosen in 2015, before tightening in 2016. The vacancy rates are forecast to be 2.8 per cent in 2015, and 2.6 per cent in 2016. It is important to note that certain sub-markets experience much lower vacancy rates, well below one per cent, due to increased demand from students and empty nesters.

Kingston will continue to enjoy relatively higher rents when compared to other cities of similar size. Rents will end the year at \$1,080 up from \$1,054 in the previous year. Certain high-end rental units fetch in higher rents which tend to push up the average. The majority of the newer rental units will be aimed at servicing this high-end market. The average two-bedroom rent will see growth above the general rate of inflation next year, with some deceleration in the following year as more rental apartments are completed. The average two-bedroom rent will increase by 2.3 per cent in 2015 and by 1.8 per cent in 2016.

Economy

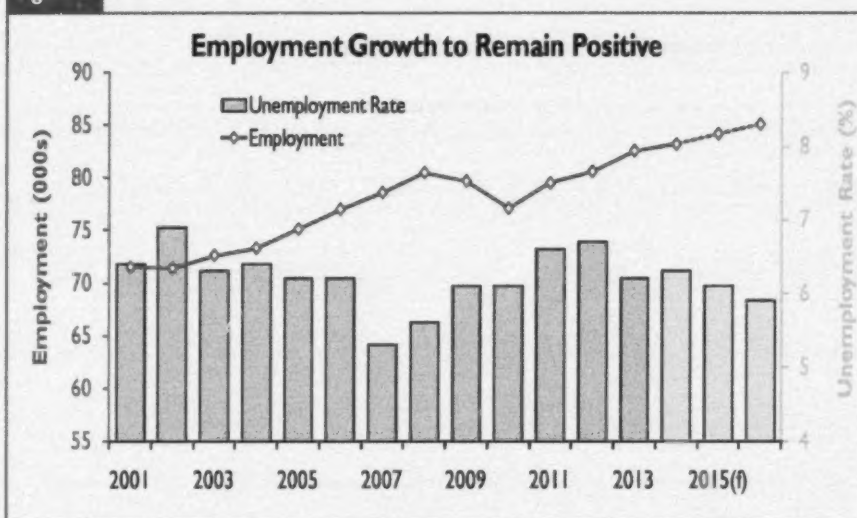
Kingston's employment numbers will see positive growth in 2015 and 2016, supported by improving Global

and National economic conditions. Provincial and Federal government expenditures continue to stabilize. The Ontario export sector will continue to see expansion, and move in step with improving economic conditions south of the border, posting a positive influence on Kingston's manufacturing sector. The unemployment rate will consequently fall to 6.1 per cent and 5.9 per cent in 2015 and 2016 respectively. Unemployment reached a ten year peak in 2012 and has since entered a prolonged period of steady, yet continuous, decreases.

The Kingston area will gain from stronger growth in the North American economy at large. Adding to this is the low value of the Canadian dollar that will increase the competitiveness of the export-oriented segments of the economy, thereby creating more attractive investment opportunities. Kingston has also become a popular tourist destination and stands to gain more from the current Canadian dollar exchange level. This will lead to positive increases in the average weekly earnings which will witness strong growth in 2015 followed by an even larger growth in 2016.

More recently, Kingston experienced positive employment gains for all age groups. In particular, the 25-44 age group, experienced the strongest gains in full-time jobs supporting a positive outlook for the CMA. In addition, large infrastructure projects will provide a boost to economic growth over the next two years. In particular, the construction of the new 270-bed Providence Care Hospital, that is expected to be completed in 2016, represents one of the largest investments in recent years. As well,

Figure 4



Source: Statistics Canada; f = CMHC Forecast

projects like the reconstruction of Princess Street in the Williamsville neighbourhood will help strengthen employment through 2015.

In the next two years, net migration into Kingston will remain positive, a consequence of employment growth and foreign students attending Kingston's post secondary institutions. Furthermore, Kingston remains a popular destination for retirees looking for an urban lifestyle at lower costs than in bigger centers.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to

significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast

NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	In the short run, mortgage rates will remain low. In the longer-term mortgage rates will see a gradual increase.
Employment	Kingston's employment growth will see growth in 2015 and 2016, as public sector employment levels stabilize and the private sector continues to influence job growth.
Income	Kingston will experience a steady increase in weekly average earnings in 2014. This increase in earnings will gain momentum in 2015 and 2016 as the economy continues to expand and will be in support of the housing market.
Net Migration	Positive net migration in the next two years will create population growth that stimulates demand for additional housing, in particular rental demand.
Resale Market	Resale market conditions are expected to be balanced. Housing starts are expected to reflect the recent moderation in sales by 2016.

Risks to the outlook

This outlook is subject to some risks, including:

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. First, there is some evidence of a short-term build-up of supply in select housing markets, particularly in the multi-unit segment. Second, household debt levels, while stabilizing, continue to be high relative to historical standards.
- There is a risk of a slowdown in China, with the chance China could miss its 2014 growth targets, coupled with uncertainty regarding the stability of the Chinese banking system. In the Euro area, there are deflationary concerns due to prolonged low inflation and a weak growth outlook. In Japan, recent increases in sales taxes have led to larger than anticipated reductions in economic growth.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the post-recession recovery in the U.S.
- A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is uncertain and could take longer than currently anticipated.
- Canadian debt levels relative to income may leave households vulnerable to adverse shocks.

Forecast Summary Kingston CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	467	449	325	310	-4.6	320	3.2	300	-6.3
Multiples	492	447	531	330	-37.9	540	63.6	405	-25.0
Semi-Detached	28	12	8	20	150.0	15	-25.0	25	66.7
Row/Townhouse	70	91	103	110	6.8	125	13.6	125	0.0
Apartments	394	344	420	200	-52.4	400	100.0	250	-37.5
Starts - Total	959	896	856	640	-25.2	860	34.4	705	-18.0
Average Price (\$):									
Single-Detached	288,320	296,178	299,493	306,800	2.4	313,000	2.0	317,000	1.3
Median Price (\$):									
Single-Detached	282,000	289,900	294,000	298,000	1.4	302,000	1.3	305,000	1.0
New Housing Price Index (% chg) (Ont.)	3.6	4.1	2.1	n/a	-	n/a	-	n/a	-
Resale Market									
MLS® Sales	3,179	3,321	3,165	2,900	-8.4	3,000	3.4	2,850	-5.0
MLS® New Listings	6,516	6,819	7,378	7,554	2.4	7,788	3.1	7,815	0.3
MLS® Average Price (\$)	261,967	270,275	279,339	286,100	2.4	291,900	2.0	296,300	1.5
Rental Market									
October Vacancy Rate (%)	1.1	1.7	2.3	2.5	0.2	2.8	0.3	2.6	-0.2
Two-bedroom Average Rent (October) (\$)	965	1,005	1,054	1,080	2.5	1,105	2.3	1,125	1.8
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	79,500	80,600	82,600	83,200	0.7	84,200	1.2	85,100	1.1
Employment Growth (%)	3.1	1.4	2.5	0.7	-	1.2	-	1.1	-
Unemployment rate (%)	6.6	6.7	6.2	6.3	-	6.1	-	5.9	-
Net Migration ⁽¹⁾	1,307	1,258	952	963	1.2	975	1.2	985	1.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly *Starts and Completions Survey*. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's *Market Absorption Survey*, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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